

Message Text

SECRET

PAGE 01 LISBON 01455 01 OF 02 231920Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W
-----231927 015843 /40

O 231830Z FEB 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC IMMEDIATE 0278

S E C R E T SECTION 1 OF 2 LISBON 1455

EXDIS

E.O. 11652: XGDS-4
TAGS: ECON, EAID, PINT, PO
SUBJECT: MARIO SOARES ASKS FOR REASSURANCE

REF: LISBON 1416

1. I AM REPORTING BY SEPTTEL A LUNCHEON CONVERSATION I HAD WITH MARIO SOARES TODAY FEB 23. AT END OF LUNCHEON, WHICH INCLUDED FINANCE MINISTER AND ECONOMIC COUNSELOR, SOARES ASKED TO SEE ME ALONE. WE SPENT A HALF HOUR TOGETHER.

2. SOARES APOLOGIZED FOR HIS PETULANCE AT OUTSET OF LUNCHEON, BUT HE REALLY HAD BEEN CONFUSED BY THE SUDDEN SHIFT IN TACTICS ON THE LOAN FROM A SECRETIVE "LET THE US DO IT" TO "GET IN THERE AND FIGHT." NOW THAT HE UNDERSTOOD OUR NEW STYLE HE WOULD MOVE FORWARD. BUT HE ALSO WANTED TO LET ME KNOW "AS A FRIEND" THAT HE WAS GENUINELY CONCERNED THAT A POSSIBLE CHANGE IN US POLICY MIGHT BE UNDERWAY. THE US PRESS ATTACKS ON BRANDT AND CARLOS PEREZ HAD UPSET HIM GREATLY, AND THEY HAD TO HAVE BEEN INSPIRED FROM SOMEWHERE. TAKEN TOGETHER WITH THE DECISION TO POSTPONE THE LOAN TO FY 78, A DECISION ON WHICH HE HAD NOT BEEN CONSULTED, HE WONDERED IF THIS DID NOT SIGNAL A SHIFT IN USG POLICY AGAINST

SECRET

SECRET

PAGE 02 LISBON 01455 01 OF 02 231920Z

SOCIALIST PARTIES AND THE SOCIALIST INTERNATIONAL.

3. SOARES SAID HE HAD BEEN VISITED THIS MORNING BY VENEZUELAN AMBASSADOR WITH PERSONAL MESSAGE FROM PEREZ. LATTER HAD SAID HE WAS SERIOUSLY CONTEMPLATING CUTTING RELATIONS WITH US. CIA CHARGES HAD PLACED HIM IN UNTENABLE POSITION AND IF HE DID NOT REACT VIGOROUSLY

HE WAS THROUGH. SOARES SAID HE WOULD ALSO SEND ME A COPY OF A LETTER SENT BY BRANDT TO PRESIDENT CARTER SHOWING THE FORMER'S GENUINE DISTRESS.

4. STILL SOMEWHAT DISTRAUGHT, SOARES SAID HE WAS ABOUT TO TAKE A SERIES OF STEPS THAT "WOULD RESULT IN BLOODSHED IN PORTUGAL." THESE MEASURES WOULD ENCOMPASS VIRTUALLY EVERYTHING THE IMF HAD REQUESTED: IN STRICTEST CONFIDENCE THAT INCLUDED DEVALUATION--NOW. SOARES SAID THESE WERE RISKS THAT WAS WILLING TO RUN PROVIDED HE HAD USG SUPPORT. IF HE DID NOT, HE WAS PREPARED TO RESIGN IMMEDIATELY. USG HAD TO UNDERSTAND THAT COMMUNISTS WERE STILL VERY ACTIVE IN PORTUGAL AND THE PATH AHEAD WAS ROCKY. THE SOCIALISTS WERE UNDOING ALL OF THE GONCALVES PERIOD'S LEGISLATION AND THE COMMUNISTS COULD NOT TAKE THAT SITTING DOWN. THE INCIDENT IN ESTREMOZ MENTIONED TO ME BY THE PRESIDENT (REFTEL) WAS BOTH SERIOUS AND SYMPTOMATIC. ON THE OTHER SIDE RIGHTIST PRESSURES WERE GROWING DAILY. IN LIGHT OF THESE DIFFICULTIES SOARES FELT THE NEED TO KNOW EXACTLY WHAT DEGREE OF SUPPORT THE NEW ADMINISTRATION VESTED IN HIM AND HIS GOVERNMENT.

5. I TOLD SOARES THAT THE AMERICAN PEOPLE ADMIRER GREATLY WHAT HE AND HIS DEMOCRATICALLY INCLINED COMPATRIOTS HAD DONE. I WOULD REPORT HIS CONCERN TO WASHINGTON BUT, SPEAKING PERSONALLY, I WAS SURE THE NEW ADMINISTRATION WOULD CONTINUE TO BE SUPPORTIVE OF DEMOCRATIC FORCES IN PORTUGAL. HIS POLICY OF ALLIANCE WITH THE FREE WORLD AND A MARKET SECRET

SECRET

PAGE 03 LISBON 01455 01 OF 02 231920Z

ECONOMY WAS THE ONLY REALISTIC ONE. UNDER NO CIRCUMSTANCES WOULD WE ALLOW PORTUGAL TO SLIP BACK INTO CHAOS. I WAS SURE THERE WAS NO SUBSTANCE WHATSOEVER TO HIS SPECULATION LINKING PRESS CHARGES AGAINST BRANDT AND PEREZ TO NEGOTIATIONS ON THE LOAN. THE LOAN DECISIONS HAD BEEN MADE ON PURELY PRAGMATIC GROUNDS. AS FOR THE CIA CHARGES I CALLED HIS ATTENTION TO THE FACT THAT PRESS FREEDOM IN THE US; AS IN PORTUGAL, WAS SOMETIMES ACCOMPANIED BY PRESS IRRESPONSIBILITY. AS REGARDS PORTUGAL, THE CHIEF DIFFERENCE I COULD DETECT BETWEEN THE PREVIOUS AND THE PRESENT US ADMINISTRATIONS WAS ONE OF STYLE. WHEREAS THE PREVIOUS TREASURY UNDERSECRETARY HAD OPERATED VERY MUCH ON HIS OWN, THE PRESENT TEAM IN WASHINGTON WISHED TO INCLUDE THE GOP AS MUCH MORE OF A PARTNER IN PUTTING TOGETHER THE CONSORTIUM.

7. AFTER I HAD RETURNED TO THE OFFICE SOARES CALLED TO TELL ME HE HAD JUST BEEN INFORMED OF A LETTER SENT FROM PRESIDENT CARTER TO PRESIDENT PEREZ. THE LETTER, HE SAID, CLEARS THE AIR ON THAT ISSUE.

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PAGE 01 LISBON 01455 02 OF 02 231921Z
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S E C R E T SECTION 2 OF 2 LISBON 1455

EXDIS

8. COMMENT: SHIFTING THE LOAN TO FY 78 HAS TOUCHED OFF A PUBLIC FUROR HERE. PORTUGUESE IN GENERAL ARE AN EASY AND DIRECT PEOPLE TO DEAL WITH, BUT THEY DO TEND TO READ HIDDEN MOTIVES INTO MATTERS WE WOULD CONSIDER VERY STRAIGHTFORWARD. SOARES IS VISIBLY TIRED, ALTHOUGH HE STILL RETAINS AN AMAZING CAPACITY TO BOUNCE BACK. HE IS EMOTIONALLY INVOLVED IN THE SOCIALIST INTERNATIONAL, FEELS VERY CLOSE TO BRANDT AND PEREZ, AND IS HIGHLY SENSITIVE ON WHAT HE CONSIDERS TO BE MORAL ISSUES. HE IS ALSO UNDERSTANDABLY NERVOUS ABOUT HIS ECONOMIC "PACKAGE" AND THE POTENTIAL REACTION OF THE OPPOSITION. PARTICULARLY THE COMMUNISTS, TO IT. I THINK HE WAS REASSURED BY WHAT I SAID BUT DEPARTMENT MAY WISH TO CONSIDER SOME SORT OF PERSONAL MESSAGE FROM THE NEW ADMINISTRATION. IN THIS CONNECTION IT IS SIGNIFICANT THAT SOARES WAS VERY ANXIOUS TO HAVE BOTH THE VICE PRESIDENT AND THE SECRETARY VISIT, AND IS STILL AWAITING WORD ON WHEN IT WOULD BE CONVENIENT FOR HIM TO VISIT WASHINGTON. SOARES TOLD ME HE HAD HEARD FROM GOP AMBASSADOR THEMIDO THAT EITHER MARCH 21-26 OR APRIL 11-19 MIGHT BE CONVENIENT AND ASKED ME WHAT INFORMATION I HAD. I TOLD HIM I WOULD HAVE TO QUERY WASHINGTON AGAIN. A FIRM INVITATION WOULD HELP TO EASE THE CONCERNS REPORTED IN THIS TELEGRAM.
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